



City of Scottsdale Economic Trends Report

**August 2006
City of Scottsdale
Economic Vitality Department**

Economic Trends Report

August 2006

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INTRODUCTION

The Economic Trends Analysis provides detailed information on the Scottsdale economy, giving the reader a summary of what sets Scottsdale apart from other metro Phoenix cities. The study presents a historical overview of local economic indicators, and provides a comparison of Scottsdale to the balance of the Phoenix metro area.

The Economic Vitality Department welcomes your input and suggestions for changes and additions in future issues, and is pleased to grant permission to use excerpts from this material when credit is given to the City of Scottsdale.



EXECUTIVE SUMMARY

General

- ◇ 2006 is projected to be the strongest year for economic growth since September 11.
- ◇ Scottsdale, historically, has one of the lowest unemployment rates in the metropolitan area. In 2005, Scottsdale's average unemployment rate was 3.0 percent, 1.1 percent lower than the Metro area rate.

Population/Demographics

- ◇ Scottsdale is the fourth largest city in the Phoenix metro area. Since 2000, population growth rates in Scottsdale have slowed, with 2005 showing a population growth rate of just 11.7 percent over 2000, compared to 20.5 percent growth from 1995 to 2000.
- ◇ In 2005, the median household income in Scottsdale was 42 percent higher than the average median household income in the Phoenix metro area. Forecast data shows Scottsdale as the income leader in the Metro area.
- ◇ In 2005, the City assisted 10 companies in moving to or expanding in Scottsdale, adding 1,275 jobs to the market.
- ◇ Scottsdale's employment base is highly diversified with business services, high technology, bio-medical, tourism, and retail all playing important roles in the economy. Major employers include: Scottsdale Healthcare, General Dynamics, Mayo Clinic, Scottsdale Unified School District, Caremark Health Systems, City of Scottsdale, Scottsdale Fairmont Princess Resort, Scottsdale Insurance Company, and Dial Corporation.

Employment

- ◇ The Phoenix metro area led the nation in absolute job growth in 2005, adding over 83,200 jobs—more than Washington, D.C., New York, Los Angeles, and Chicago.
- ◇ The Metro area will maintain steady growth in 2006, with strong employment gains and solid population projections.

Building Activity

- ◇ Calendar Year 2005 showed an increase of residential building permits for the housing market in Scottsdale. A total of 2,290 residential units were permitted in FY2005/06. Single-family residences accounted for 1,766 of the total units permitted.

Building Activity (continued)

- ◇ The value of Scottsdale's building permits in calendar year 2005 was \$1,051,231,416.
- ◇ Commercial vacancy rates for industrial, office, and retail spaces in Scottsdale in 2005 were 13.8 percent, 13.6 percent, and 4.3 percent, respectively.
- ◇ In 2005, the Original Scottsdale area (south of Indian School Rd, exclusive of Downtown) saw \$29.1 million in new projects completed. Another \$115 million in projects is either under construction or preparing for construction, and an additional \$46 million in projects has been proposed.
- ◇ Downtown Scottsdale received approximately \$2 billion in public and private investments in 2005.

Tax Activity

- ◇ The assessed value of Scottsdale property (the value on which property taxes are calculated) is second only to Phoenix in the State. In Fiscal Year 2004/05, Scottsdale had the highest assessed valuation per capita in the Metro area at \$20,919.
- ◇ Sales tax collections per capita for Scottsdale are consistently the highest of all Metro communities.

Tax Activity (continued)

- ◇ The property tax rate for the City of Scottsdale averages approximately 36 percent lower than property tax rates in other Metro area cities.
- ◇ Total sales tax collections for FY05/06 were \$169.8 million, 11.6 percent higher than FY04/05 collections.

Tourism, Education, Trends

- ◇ Tourism is Scottsdale's single largest industry and was responsible for \$7.7 million in bed tax receipts for the City of Scottsdale in 2005.
- ◇ The 2005 average hotel room rate was \$145.31.
- ◇ The average occupancy for Scottsdale/Paradise Valley hotels in 2005 was 70.4 percent.
- ◇ Scottsdale's K-12 education competes favorably in the Metro area, ranking considerably higher on standardized test scores than most other Metro area school districts.
- ◇ Scottsdale's general obligation bond rating by Fitch IBCA, Standard & Poor's Rating Service, and Moody's Investor Service is AAA. A high bond rating reflects the credit industry's faith in Scottsdale's ability to repay outstanding debt.

DEMOGRAPHIC OVERVIEW

Comparisons of population and income for Scottsdale and other major cities in the Phoenix metro area (Phoenix, Mesa, Glendale, Chandler, Tempe, Gilbert, and Peoria), as well as for the Phoenix metro area as a whole, are important because they provide a view of the entire market area and allow analysis of market area trends.

Population

Scottsdale's population rose to 226,390 in 2005, a 2.4 percent increase over 2004. Scottsdale's population growth made up 6.2 percent of the Metro area's total population growth in 2005.

Table 1 (pg. 10) and *Chart 1* (pg. 11) reflect the growth percentages of several Phoenix metro area communities. Scottsdale grew 293 percent between 1975 and 2005. Many other suburban communities in the Metro area experienced significantly higher growth rates during the 1975-2005 period; including Gilbert (5,744 percent), Peoria (1,587 percent), Chandler (1,157 percent), Mesa (452 percent), and Glendale (355 percent). Overall, metro Phoenix grew 299 percent during this 30-year period.

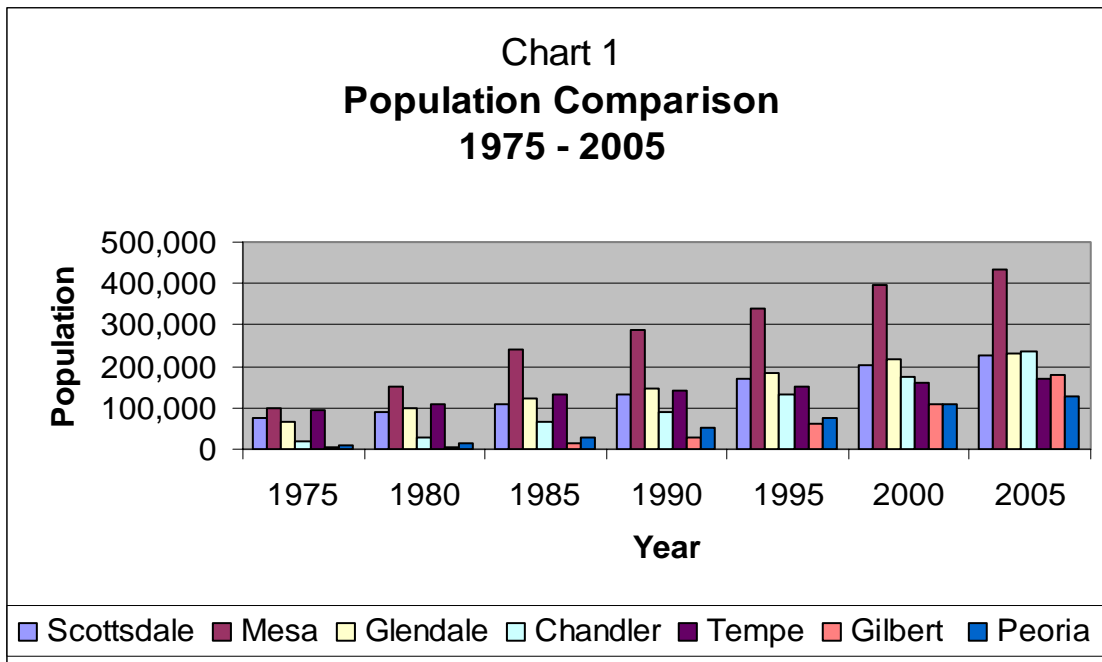


Scottsdale grew 294% between 1975 and 2005, compared to 217% growth in Phoenix during the same period.

Table 1
Population and Growth Rates

	Year	Scottsdale	Phoenix	Mesa	Glendale	Chandler	Tempe	Gilbert	Peoria	Metro Area
POP. GROWTH	1975	77,107	668,046	100,086	66,585	20,025	94,300	3,100	8,651	1,217,500
	1980	88,364	789,704	152,453	96,988	29,673	106,743	5,717	12,171	1,509,052
	1985	108,447	873,400	239,587	122,392	63,817	132,942	16,180	30,324	1,814,700
	1990	130,069	983,403	288,091	148,134	90,533	141,865	29,188	50,675	1,952,447
	1995	168,176	1,149,417	338,117	182,615	132,360	152,821	59,338	74,565	2,551,765
	2000	202,705	1,321,045	396,375	218,812	176,581	158,625	109,697	108,364	2,862,909
	2005	226,390	1,452,825	452,355	236,030	231,785	160,735	178,070	137,285	3,648,545
	% of Maricopa County (2005)	6.20%	39.82%	12.40%	6.47%	6.35%	4.41%	4.88%	3.76%	100.0%
1975 - 2005 GROWTH RATES	Absolute Growth	149,283	784,779	352,269	169,445	211,760	66,435	174,970	128,634	2,431,045
	%Growth	293.6%	217.5%	452.0%	354.5%	1157.5%	170.5%	5744.2%	1586.9%	299.7%
	Annual Growth	9.8%	7.2%	15.1%	11.8%	38.6%	5.7%	191.5%	52.9%	10.0%
1990 - 2005 GROWTH RATES	Absolute Growth	96,321	784,779	164,264	87,896	141,252	18,870	148,882	86,610	1,696,098
	% Growth	174.1%	147.7%	157.0%	159.3%	256.0%	113.3%	610.1%	270.9%	186.9%
	Annual Growth	11.6%	9.8%	10.5%	10.6%	17.1%	7.6%	40.7%	18.1%	12.5%

Source: Arizona Department of Economic Security, Population Estimates; Arizona Workforce Informer



Income

Scottsdale consistently has one of the highest median household income figures of any city in Arizona. The median annual household income in Scottsdale in 2005 was \$65,361, compared to the Metro area average of \$46,111.

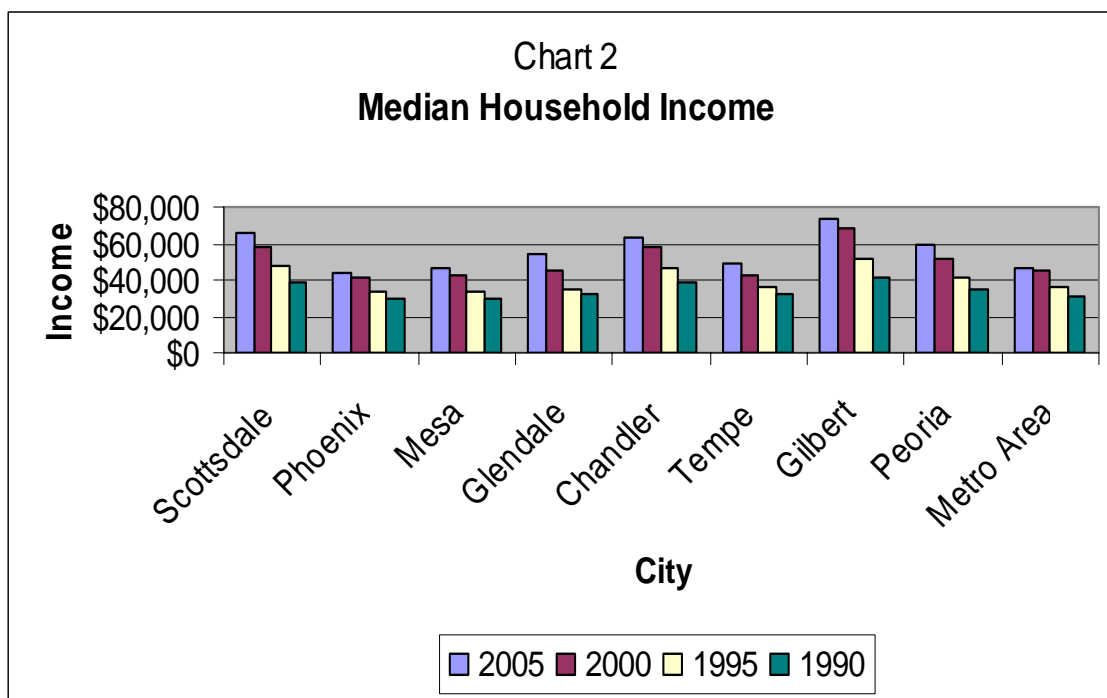
Table 2 and Chart 2 (pg. 12) compare the median household income in several cities in the metro Phoenix area over a 15-year span.

Scottsdale consistently has one of the highest median household income figures of any city in Arizona.

Table 2
Median Household Income

City	2005 Median Household Income	2000 Median Household Income	1995 Median Household Income	1990 Median Household Income	Growth Rate 2005 vs 1990
Scottsdale	\$65,361	\$57,484	\$48,319	\$39,037	67%
Phoenix	\$44,222	\$41,207	\$32,950	\$29,291	51%
Mesa	\$46,438	\$42,817	\$33,676	\$30,273	53%
Glendale	\$54,424	\$45,015	\$35,483	\$31,665	72%
Chandler	\$63,143	\$58,416	\$46,096	\$38,124	66%
Tempe	\$48,767	\$42,361	\$36,049	\$31,885	53%
Gilbert	\$73,960	\$68,032	\$51,660	\$41,081	80%
Peoria	\$58,742	\$52,199	\$40,820	\$34,205	72%
Metro Area	\$46,111	\$45,358	\$35,623	\$30,797	50%
Scottsdale median income is higher than Metro Area Median Income by:	42%	27%	36%	27%	

Source: Sites USA, 2000 US Census, 1995 Special US Census, 1990 US Census



EMPLOYMENT OVERVIEW

Employment data—including the number of jobs in the community, the job growth rate, unemployment rates, and comparisons of job growth to labor force growth and population growth—provides a better understanding of the economic nature of a community.

Scottsdale Employment

Table 3 gives a breakdown of Scottsdale's employment by industry for 2000 and projected for 2010. Business services and retail trade were the largest employment categories for 2000, and are projected to be the largest in 2010. The City of Scottsdale expects employment to grow by approximately 27,600 jobs, or 21 percent, from 2000 to 2010. Most industry categories will remain flat during that time. However, Finance, Insurance, and Real Estate employment (FIRE) is expected to decline slightly, while business services is projected to expand.

Table 4 (pg. 14) lists the 30 largest employers in Scottsdale, as of December 2005. Most are technology companies, retailers, resorts, insurance companies, health care organizations, educational institutions, and other service activities.

The City of Scottsdale expects employment to grow by approximately 27,600 jobs, or 21%, between 2000 and 2010.

Table 3
Scottsdale Employment by Industry and Year

	2000		2010	
	Employment	Percent	Employment	Percent
Agriculture	1,918	1.5%	2,225	1.4%
Business Services	26,848	20.9%	36,081	23.1%
Construction	7,077	5.5%	7,938	5.1%
Finance, Insurance, Real Estate	16,440	12.8%	18,141	11.6%
Health Industry	12,785	9.9%	14,934	9.6%
High Tech Manufacturing	8,138	6.3%	8,762	5.6%
Hospitality	14,652	11.4%	17,900	11.4%
Low Tech Manufacturing	2,985	2.3%	3,639	2.3%
Mining	122	0.1%	123	0.08%
Personal Services	8,446	6.6%	10,600	6.8%
Retail Trade	18,725	14.5%	23,507	15.0%
Transport	3,842	3.0%	4,038	2.6%
Wholesale Trade	6,674	5.2%	8,378	5.4%
TOTAL	128,652	100.0%	156,267	100.0%

Source: Gruen Gruen & Associates, "Analysis & Forecast of the Economic Base of Scottsdale," June 1999

Table 4
Largest Employers in Scottsdale
 2005

Rank	Company Name	Employees
1	Scottsdale Healthcare	4,400
2	General Dynamics	4,000
3	Mayo Clinic - Scottsdale	3,995
4	Scottsdale Unified School District	3,500
5	City of Scottsdale	2,708
6	Scottsdale Insurance Company	2,000
7	CareMark	1,636
8	Fairmont Princess Resort	1,200
9	Rural Metro Corporation	875
10	McKesson	700
11	The Boulders Resort	680
12	USPS - Scottsdale	680
13	Dial Corporation	650
14	JDA Software Group	650
15	Desert Mountain Properties	638
16	First Health Group	610
17	Go Daddy	600
18	Pegasus Solutions	600
19	E-Telecare Global Solutions	600
20	First National Bank of Arizona	530
21	Nordstroms	525
22	Hyatt Regency at Gainey Ranch	500
23	United Blood Services	498
24	Scottsdale Conference Resort	400
25	Scottsdale Community College	400
26	Dillards	390
27	Scottsdale Plaza Resort	375
28	DHL	350
29	Costco	350
30	Best Software	250

Source: City of Scottsdale, Economic Vitality Department

Job Growth versus Labor Force Growth and Population Growth

One method of measuring the economic vitality of a city is by comparing rates of job growth with labor force growth rates and overall population growth rates. Between 1990 and 2005, Scottsdale experienced a 63 percent increase in job growth (jobs physically located within the City), compared to the Metro area's overall job increase of 66 percent. During the same time period, Scottsdale's labor force (persons between 18 and 65 years of age who live in the city and who are employed or actively seeking employment) grew by 55 percent, and its population grew by 57 percent. In 2005, there were more jobs located in Scottsdale than there were laborers (1.09 jobs per each Scottsdale resident in the labor force), a trend that has existed for the past 20 years. In contrast, the Phoenix metro area (Maricopa County) had a ratio of jobs to labor force of 0.93 to 1.0 in 2005.

Table 5 (pg. 16) compares the rates of job growth with the growth rates of the labor force and the overall population.

Historically, Scottsdale was thought of as a bedroom community for Phoenix; however, for over 15 years it has been the greatest net importer of labor in the Metro area.

Table 5
**Job Growth, Labor Force Growth, and
Population Growth**

	Year	Scottsdale	Maricopa County
JOB GROWTH	1990	88,967	1,027,007
	1995	118,551	1,276,057
	2000	126,918	1,454,181
	2005	145,034	1,702,100
	% Change 1990 - 2005	63%	66%
LABOR FORCE GROWTH	1990	72,793	1,074,542
	1995	90,579	1,308,729
	2000	103,407	1,489,292
	2005	132,788	1,827,169
	% Change 1990 - 2005	55%	59%
POP. GROWTH	1990	130,069	2,122,101
	1995	168,176	2,551,765
	2000	202,705	3,072,149
	2005	226,390	3,329,561
	% Change 1990 - 2005	57%	64%
Ratio of Jobs to Labor Force (2005):		1.09 to 1	0.93 to 1

Source: Arizona Workforce Informer, City of Scottsdale Economic
Vitality Department

Unemployment Rates

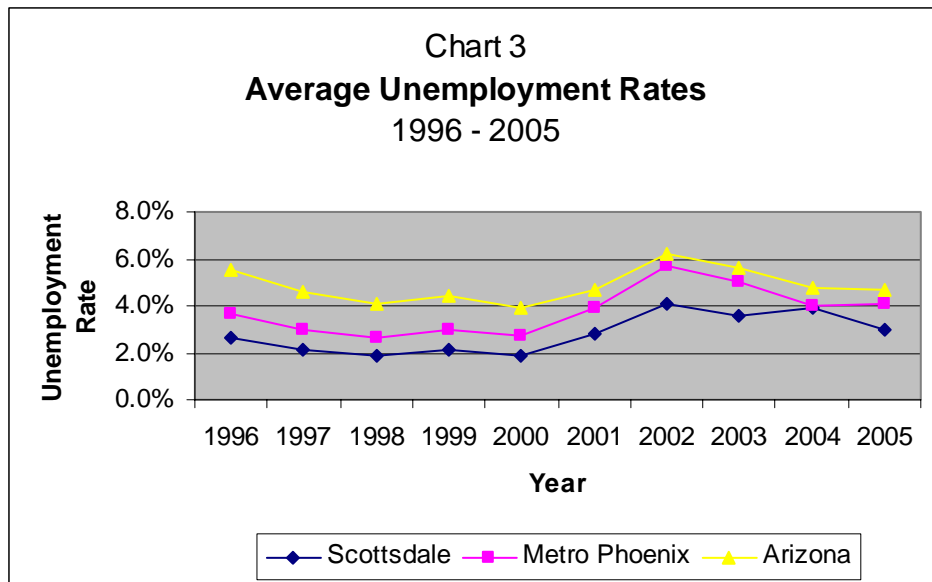
Scottsdale's unemployment rate parallels metro Phoenix' and Arizona's rates, but has consistently been lower than the unemployment rate for the Phoenix metro area, and the State. *Table 6* and *Chart 3* reflect this trend.

Between 1996 and 2005, Scottsdale's average unemployment rate ranged from a high of 4.1 percent in 2002, to a low of 1.9 percent in 1998 and 2000.

Table 6
Average Annual Unemployment Rates

Year	Scottsdale	Metro Phoenix	Arizona
1996	2.6%	3.7%	5.5%
1997	2.1%	3.0%	4.6%
1998	1.9%	2.6%	4.1%
1999	2.1%	3.0%	4.4%
2000	1.9%	2.7%	3.9%
2001	2.8%	3.9%	4.7%
2002	4.1%	5.7%	6.2%
2003	3.6%	5.0%	5.6%
2004	3.9%	4.0%	4.8%
2005	3.0%	4.1%	4.7%

Source: Arizona Workforce Informer



Employment Summary

Overall, the employment situation for Scottsdale looks very positive. The industries that employ significant numbers of Scottsdale's residents are the ones that are still growing, such as business services, technology, and tourism. Employment growth will help ensure a continued low unemployment rate.

The Phoenix metro area added over 83,200 jobs in 2005, more than any other metropolitan area in the nation.

Table 7 shows select companies the City assisted in relocating or expanding in Scottsdale in 2005.

Table 7
Companies Relocating/Expanding in Scottsdale*
Fiscal Year 2005/2006

Company Name	# of Employees	Type of Business
Bank One Technical Center	250	Technology
Confidential	400	Technology Center
DHL	200	High Tech/ U.S. HQ
Efunds	200	Programming / Corporate HQ
InNexus	35	Bio Industry
Mac 5 Lab	12	Bio Industry
Sankyo Pharmaceutical	10	Bio Industry
Sanofi / Aventis	15	Biosciences / Regional HQ
Services Group of America	150	Corporate HQ
SMI	3	Bio Industry
Total	1,275	

Source: City of Scottsdale, Economic Vitality Department

*This list represents successful new targeted businesses which announced new locations in Scottsdale during the fiscal year (July 1 - June 30), which were assisted by the City of Scottsdale. It does not represent all new employers in Scottsdale.

NEW CONSTRUCTION

Scottsdale is a leader in the Metro area in terms of new construction, with significantly higher building permit valuations than expected for a city of its size. For the purposes of this study, trends in new construction activity are measured by the number and value of building permits.

Number of Residential Building Permits

The total number of residential building permits issued in Scottsdale has been steady over the last ten years, with a recent decline due to the City approaching residential build out.

A total of 2,290 residential permits were issued in Scottsdale in FY2005/06, made up of 1,766 single family and 524 multi-family units permitted. The number of permits issued annually remains high, but Scottsdale has seen a declining trend over the last 10 years, as it is approaching build out, and custom and semi-custom homes are the norm. The overall number of permits has declined over the past five years due to decreases in the number of single-family homes.

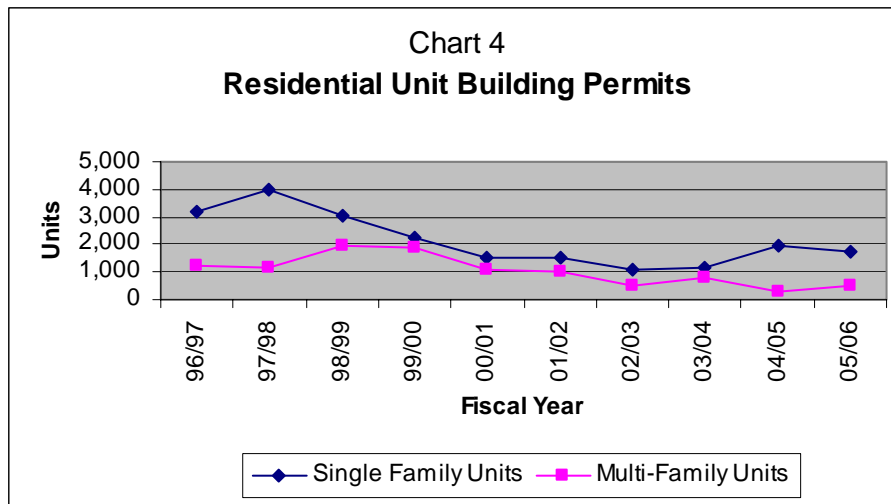
Table 8 and Chart 4 (pg. 20) summarize the number of residential unit permits issued in Scottsdale over the past 10 years.

Scottsdale is a leader in the Metro area in terms of new construction, with significantly higher building permit valuations than expected for a city of its size.

Table 8
Residential Unit Building Permits

Fiscal Year	Single Family Units	Multi-Family Units	Total Units
1996/1997	3,185	1,262	4,447
1997/1998	3,960	1,144	5,104
1998/1999	3,075	1,988	5,063
1999/2000	2,246	1,875	4,121
2000/2001	1,550	1,114	2,664
2001/2002	1,510	1,026	2,536
2002/2003	1,084	543	1,627
2003/2004	1,191	822	2,013
2004/2005	1,988	305	2,293
2005/2006	1,766	524	2,290

Source: City of Scottsdale, Planning & Development, One Stop Shop



Value of Building Permits

The total value of all building permits granted in Scottsdale in 2005 was over \$1 billion. *Table 9* and *Chart 5* (pg. 21) compare Scottsdale's percentage of permit values and population to that of the Phoenix metro area. Scottsdale receives a greater percentage of new construction than would be expected for a city of its size. Over the last ten years, Scottsdale's building permit valuation, as a percentage of the total for the Metro area, has been in the range of 8-17 percent. In 2005, Scottsdale issued 9.6 percent of the Phoenix metro area's building permit valuations.

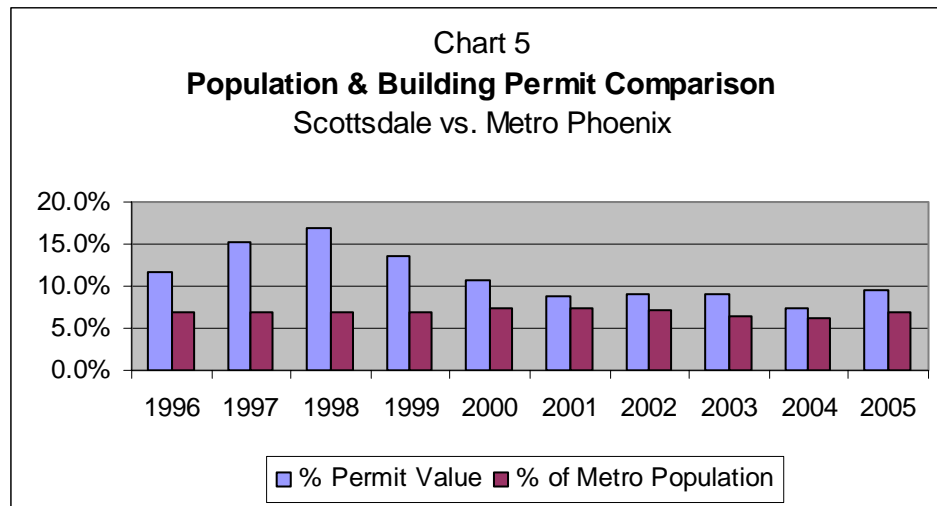


Table 9
Value of Building Permits: 1996 - 2005

Calendar Year	Scottsdale	Maricopa County	Scottsdale's Percentage
1996	\$790,858,919	\$6,798,341,000	11.6%
1997	\$1,095,205,453	\$7,153,345,000	15.3%
1998	\$1,431,771,972	\$8,477,796,000	16.9%
1999	\$1,130,304,322	\$8,324,511,000	13.6%
2000	\$939,402,365	\$8,665,613,000	10.8%
2001	\$820,362,000	\$9,332,597,000	8.8%
2002	\$610,594,653	\$6,751,142,000	9.0%
2003	\$637,735,176	\$7,039,184,000	9.1%
2004	\$771,213,608	\$10,241,935,000*	7.5%*
2005	\$1,051,231,416	\$10,905,181,000	9.6%

Source: City of Scottsdale, Planning & Development; Maricopa County Department of Finance

*Revised number



VACANCY RATES

Table 10 (pg. 23) and *Table 11* (pg. 24) present commercial vacancy rates for various areas of the metro Phoenix area from 2000-2005. The data is broken down into submarkets of the Metro area that do not necessarily correspond to specific city boundaries. The Scottsdale submarket includes portions of surrounding municipalities, and Paradise Valley has its own submarket. Nevertheless, the data identifies general trends.

Office

The total vacancy rate for the Scottsdale office submarket in 2005 was 13.6 percent. North Scottsdale has been one of the fastest growing office markets in metro Phoenix, keeping a relatively low vacancy rate of 13.9 percent. The amount of vacant Class A space increased due to increased availability of Class B space at lower cost. Scottsdale's total office inventory in 2005 was nearly 11 million square feet.

Industrial

The Scottsdale Airpark, the industrial base for Scottsdale and Northeast Phoenix (east of State Route 51), experienced tremendous growth and in-fill activity this year. Scottsdale's built industrial inventory is almost completely occupied, though the trend to locate in the Airpark is expected to continue, and positive net absorption is expected. The Scottsdale/North East Phoenix industrial inventory for year-end 2005 was 15 million square feet, with 726,228 square feet under construction.

Retail

Overall vacancy rates in the Scottsdale retail market in 2005 were 5.2 percent. Net absorption of retail space set a new record, at more than 5.9 million square feet. Record new housing permits and swelling population numbers gave confidence to retailers residing in and/or moving to the area. In response to the increased demand for retail space, 2005 ended with 6.7 million square feet of retail space under construction.

The biggest advantage to retailers in the Metro area is the growth in housing and population. Retail rental rates will rise, but will be justified by high consumer demand. Retail market expansion will be balanced.

Scottsdale issued 9.6% of the Phoenix metro area's building permit valuations in 2005.

Table 10
Commercial Vacancy Rates
Metropolitan Phoenix

OFFICE SUBMARKETS						
	2000	2001	2002	2003	2004*	2005*
Downtown Phoenix	8.6%	9.5%	15.7%	14.0%		
Camelback Corridor	13.0%	6.8%	18.8%	18.8%		
East Phoenix	9.9%	14.8%	19.9%	25.4%		
Freeway/Tempe	12.4%	15.9%	22.1%	18.0%		
Mesa/Chandler	11.2%	22.9%	21.0%	20.0%		
Northeast Phoenix	11.2%	10.6%	25.3%	14.4%		
Scottsdale	9.8%	14.6%	21.0%	15.1%		
Uptown Phoenix	13.0%	13.2%	23.9%	26.3%		
West Phoenix	10.6%	10.9%	26.3%	23.7%		
Total	10.9%	12.4%	21.5%	20.5%		

*New office submarket classifications. Refer to Table 11

RETAIL SUBMARKETS						
	2000	2001	2002	2003	2004*	2005
Central Phoenix	5.1%	5.7%	7.8%	4.6%	3.1%	4.8%
Chandler/Gilbert	4.4%	4.8%	6.1%	4.6%	4.1%	5.5%
Mesa	4.7%	6.1%	7.4%	6.0%	6.2%	6.3%
North Central Phoenix	4.6%	3.5%	3.7%	6.7%	7.2%	5.6%
Northwest Phoenix	6.2%	5.4%	9.3%	5.3%	5.3%	5.3%
Scottsdale	4.5%	3.8%	5.4%	6.8%	5.0%	4.3%
South Phoenix	1.5%	14.8%	16.7%	2.1%	7.2%	7.6%
Tempe	7.8%	4.6%	7.9%	5.8%	4.7%	3.9%
West Phoenix	6.7%	5.4%	10.1%	8.9%	4.8%	4.3%
Total	5.4%	5.1%	7.3%	5.9%	5.1%	5.2%

*Second half of 2004

INDUSTRIAL SUBMARKETS						
	2000	2001	2002	2003	2004*	2005*
Black Canyon	6.5%	2.2%	7.4%	7.7%	6.0%	5.1%
Chandler	24.8%	6.6%	8.5%	9.7%	11.4%	7.3%
Glendale	13.7%	4.7%	4.7%	4.3%	2.3%	1.8%
Mesa/Gilbert	15.2%	3.9%	15.7%	14.4%	8.3%	7.3%
Northwest Phoenix	15.4%	8.5%	8.0%	9.9%	16.4%	6.8%
Scottsdale/NE Phoenix	7.0%	3.7%	8.6%	10.3%	8.4%	13.8%
Sky Harbor Airport	10.3%	6.2%	11.8%	12.1%	12.5%	7.1%
Southwest Phoenix	23.0%	8.9%	15.9%	16.8%	15.7%	10.2%
Tempe	12.6%	6.0%	11.8%	11.0%	10.1%	8.5%
West Central Phoenix	6.9%	3.1%	8.5%	7.6%	9.3%	5.5%
Total	13.1%	5.7%	11.0%	11.1%	10.9%	7.7%

*fourth quarter

Source: Grubb & Ellis Market Trends: 2000, 2001, 2002, 2003, 2004 and 2005 editions

Table 11
Commercial Office Vacancy Rates
Metropolitan Phoenix

OFFICE SUBMARKETS		
	2004*	2005*
Downtown Phoenix North	24.9%	20.5%
Downtown Phoenix South	12.8%	7.9%
44th Street Corridor	19.5%	14.9%
Sky Harbor Airport Area	23.0%	14.0%
Camelback Corridor	18.3%	12.2%
Chandler/Gilbert	28.2%	4.6%
Deer Valley/Airport	9.1%	14.5%
Glendale	12.0%	6.8%
Mesa Downtown	20.5%	3.5%
Mesa East	19.6%	32.7%
Midtown Phoenix	18.8%	15.9%
NW Phoenix	17.6%	16.5%
Paradise Valley	14.2%	21.7%
Scottsdale Airpark	16.5%	9.6%
Scottsdale North	13.0%	13.9%
Scottsdale South	20.3%	17.2%
Squaw Peak Corridor	17.5%	16.0%
Sun City	11.3%	4.0%
Superstition Corridor	14.5%	9.6%
Tempe	12.2%	11.0%
Tempe/South Chandler	16.0%	14.1%
West Phoenix	44.2%	46.8%
Total	17.8%	14.5%

Source: Grub & Ellis Market Trends, 2004 and 2005

*fourth quarter

ASSESSED VALUATION / PROPERTY TAX

Assessed valuation (the total value of property and improvements) is an excellent measure of the economic health and vitality of a community. It also provides the basis for computation of property tax.

Growth in Assessed Valuation

The secondary assessed valuation of property in Scottsdale has risen since FY95/96 from \$1.5 billion to over \$4 billion in FY04/05. Steady increases in assessed valuation since FY95/96 reflect a healthy, stable valuation environment, coupled with new construction activity.

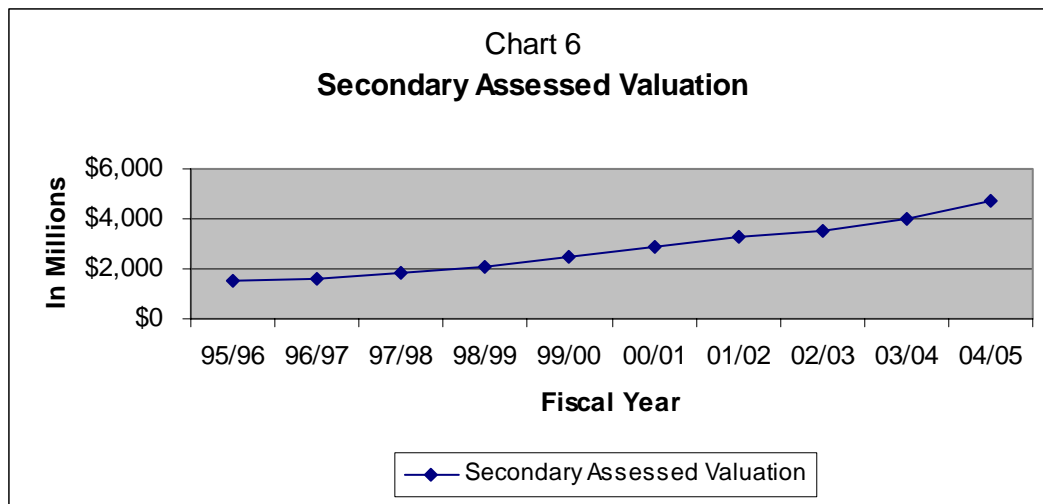
Table 12 and Chart 6 provide a view of assessed valuation in Scottsdale from FY95/96 to FY04/05.

Table 12
Change in Secondary Assessed Valuation
City of Scottsdale

Fiscal Year	Secondary Assessed Valuation	Percent Change
1995/1996	\$1,530,088,317	9.40%
1996/1997	\$1,591,800,942	4.00%
1997/1998	\$1,839,090,230	15.50%
1998/1999	\$2,102,351,943	14.30%
1999/2000	\$2,469,628,670	17.50%
2000/2001	\$2,877,733,056	16.50%
2001/2002	\$3,277,950,767	13.90%
2002/2003	\$3,526,604,612	7.60%
2003/2004	\$3,975,522,083	12.70%
2004/2005	\$4,735,754,578	19.10%
% Change FY96/97 - FY05/06		13.1%

Source: City of Scottsdale, Tax Audit Department

Notes: Arizona secondary assessed valuations reflect the "full cash" value of property; there are no restrictions on the growth rate of the values. As a comparison, primary assessed valuations are restricted in their growth rate. Secondary assessed valuations are used in this study, as they more accurately reflect actual market conditions.



Assessed Value Comparison

Table 13, Table 14 (pg. 27) and Chart 7 (pg. 27) present a comparison of total assessed value per capita since FY95/96 for the City of Scottsdale and for Maricopa County. Scottsdale's assessed value per capita has been higher than the Maricopa County average for more than ten years. Not only is Scottsdale's figure double that of the rest of the Metro area, it is increasing at a faster rate than its population. As previously noted, Scottsdale has become a major regional employment center with more commercial growth than residential growth. This commercial growth helps strengthen the economic base of the community and cushions the community from economic downturns.

Table 13
Secondary Assessed Valuation
(millions*)

Fiscal Year	City of Scottsdale	Maricopa County
1995/1996	\$1,530	\$14,119
1996/1997	\$1,592	\$14,343
1997/1998	\$1,839	\$15,723
1998/1999	\$2,102	\$16,813
1999/2000	\$2,469	\$18,676
2000/2001	\$2,878	\$20,878
2001/2002	\$3,277	\$22,913
2002/2003	\$3,527	\$25,457
2003/2004	\$3,976	\$24,478
2004/2005	\$4,736	\$28,812

Source: City of Scottsdale, Financial Services Department; Maricopa County Finance Department
* Based on total net secondary assessed valuation figures.

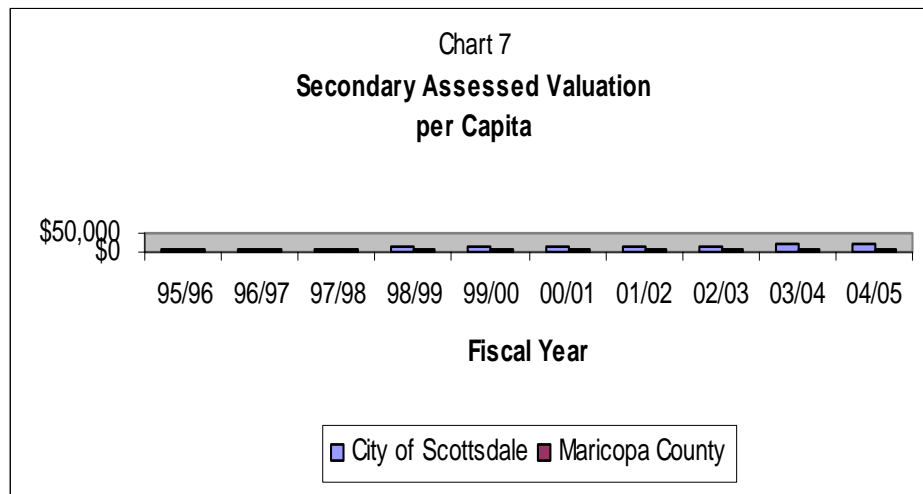
Scottsdale has become a regional employment center with more commercial growth than residential growth. This commercial growth helps strengthen the economic base of the community and cushions the community from economic downturns.

Table 14
Secondary Assessed Valuation Per Capita*

Fiscal Year	City of Scottsdale	Maricopa County
1995/1996	\$9,097	\$5,533
1996/1997	\$9,148	\$5,444
1997/1998	\$10,048	\$5,779
1998/1999	\$10,754	\$5,991
1999/2000	\$11,966	\$6,410
2000/2001	\$13,081	\$7,067
2001/2002	\$15,552	\$7,178
2002/2003	\$16,473	\$7,420
2003/2004	\$18,274	\$7,206
2004/2005	\$20,919	\$7,705

Source: City of Scottsdale, Financial Services Department;
Maricopa County Finance Department

* Based on total net secondary assessed valuation figures.



Property Tax Comparison

Table 15 compares the overall property tax rates and the average annual property tax bills for Scottsdale and other major communities in the Phoenix metro area. On average, the property tax bills in other Metro area cities are approximately 36 percent higher than in Scottsdale.

That translates into an annual savings of about \$83,693 on a \$10,000,000 commercial building, and a \$335 savings on a \$100,000 single-family residence. Because of Scottsdale's strong economic base, taxes on local residents and businesses are lower than in other cities, while city service levels remain high.

Table 15
Property Tax Comparison*
2005

				Average Annual Property Tax Rate On:	
City	School District	Total Tax Rate	Variance from Scottsdale	\$100,000 Single Family House	\$10,000,000 Commercial Building
Scottsdale	Scottsdale 48*	\$9.30	0.0000	\$930	\$232,480
Phoenix	Phoenix 1	15.53	6.2317	1,553	388,273
	Wilson 7	14.92	5.6168	1,492	372,900
	Osborn 8	11.93	2.6282	1,193	298,185
	Creighton 14	13.38	4.0835	1,338	334,568
	Balsz 31	12.46	3.1575	1,246	311,418
	Madison 38	12.05	2.7461	1,205	301,133
	Paradise Valley 69	11.45	2.1472	1,145	286,160
	Deer Valley 97	11.88	2.5827	1,188	297,048
Tempe	Tempe 3*	11.57	2.2697	1,157	289,223
Mesa	Mesa 4*	9.87	0.5733	987	246,813
Glendale	Glendale 40	14.88	5.5809	1,488	372,003
Chandler	Chandler 80*	11.37	2.0744	1,137	284,340
Gilbert	Gilbert 41*	12.23	2.9305	1,223	305,743
Peoria	Peoria 11	13.09	3.7932	1,309	327,310
Avg. variance compared to Scottsdale:			3.3154		

Source: City of Scottsdale, Finance Department

* Includes City, County, Community College, School District, County-wide Special Districts, County Education Districts, and (where applicable) EVIT or WESTMEC.

The main school district in each community was used for comparison.

Not included in this analysis is the Homeowner's Rebate. Pursuant to ARS 15-972, the tax rate levied by school districts is reduced for homeowners, not to exceed \$500, through the rebate.

SALES TAX COLLECTIONS

Sales tax collections are very important to Scottsdale because the City receives a far greater percentage of revenue from sales taxes than from other revenue sources.

Growth in Adjusted Sales Tax Collections

Scottsdale's adjusted sales tax collections have risen at a rapid rate from \$74.7 million in FY96/97, to \$169.8 million in FY05/06, 11.6 percent above last year's tax collections.

Table 16 shows the growth in Scottsdale's sales tax collection from FY96/97 through FY05/06.

Table 16
Growth in Sales Tax Collections
(compared on an adjusted 1% rate basis)

Fiscal Year	Sales Tax Collections	% Change
1996/1997	\$74,729,359	11.8%
1997/1998	\$84,825,508	13.5%
1998/1999	\$97,780,147	15.3%
1999/2000	\$108,033,945	10.5%
2000/2001	\$113,538,992	5.1%
2001/2002	\$111,760,545	-1.6%
2002/2003	\$110,813,432	-0.9%
2003/2004	\$118,271,696	6.7%
2004/2005	\$152,209,000	28.6%
2005/2006	\$169,815,759	11.6%

Source: City of Scottsdale, Financial Services Department

Sales Tax Collection Comparisons

Table 17 (pg. 30) presents each of the major Metro area cities' sales tax collections since FY96/97. Tax rates have changed for each city in the last decade.

- ◇ The City of Scottsdale's sales tax rate was raised from 1.4 percent to 1.65 percent in July 2004.
- ◇ Phoenix' sales tax rate rose from 1.3 percent to 1.4 percent in November 1998; and, as of June 2000, climbed to 1.8 percent.
- ◇ Tempe's sales tax has been 1.8 percent since January 2002.
- ◇ Mesa's sales tax rate was 1.0 percent until August 1998, when it increased to 1.5 percent.
- ◇ Chandler's tax rate has been 1.5 percent since May 1994.
- ◇ Gilbert's sales tax rate has been 1.5 percent since sales tax revenue began to be recorded in FY99/00.
- ◇ Peoria's sales tax rate has been 1.5 percent since sales tax revenue began to be recorded in FY99/00.

Sales Tax Collection Comparisons (continued)

Scottsdale leads all other cities in per capita sales tax collections by a substantial margin, as reflected in *Table 18* and *Chart 8* (pg. 31).

In FY95/96, strong increases in sales tax collections occurred in many Valley communities for a variety of reasons, including population growth and housing construction. The per capita sales tax comparison (Table 18) shows population growth in a number of Valley communities offsetting gains in sales tax revenues.

Beginning in FY1998/99, sales tax revenue calculations in this report were changed to reflect sales tax revenues collected exclusively for the General Fund. The reason for this change was to be able to compare all cities' sales tax revenues on the same basis. It was a substantial change for the Phoenix sales tax revenues because, in prior years, revenue that went to other funds was included in the total sales tax revenue figures.

Table 17
Total Sales Tax Collections (millions)

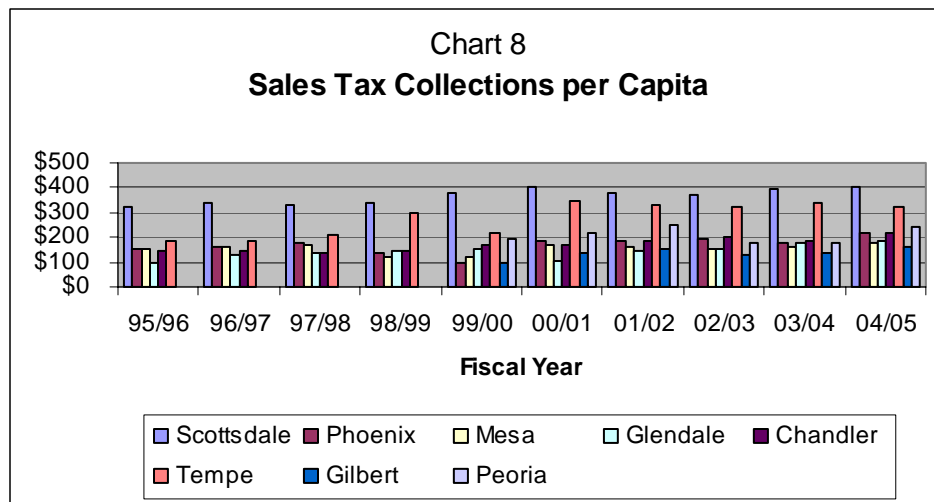
Fiscal Year	Scottsdale	Phoenix	Mesa	Glendale	Chandler	Tempe	Gilbert	Peoria
1995/1996	\$68.10	\$288.40	\$54.60	\$24.90	\$30.10	\$48.40	n/a	n/a
1996/1997	\$75.70	\$296.30	\$57.40	\$32.30	\$32.20	\$50.80	n/a	n/a
1997/1998	\$85.90	\$317.80	\$62.90	\$36.50	\$35.00	\$56.70	n/a	n/a
1998/1999	\$98.30	\$254.40	\$66.40	\$39.80	\$41.40	\$57.50	n/a	n/a
1999/2000	\$108.10	\$223.80	\$70.70	\$42.90	\$44.40	\$60.50	\$15.80	\$22.50
2000/2001	\$113.50	\$480.50	\$102.30	\$44.60	\$50.50	\$98.90	\$25.10	\$26.20
2001/2002	\$111.70	\$477.00	\$102.60	\$51.60	\$57.70	\$94.60	\$28.70	\$29.10
2002/2003	\$110.80	\$478.60	\$98.90	\$63.70	\$58.00	\$92.70	\$29.34	\$35.90
2003/2004	\$118.30	\$504.30	\$105.40	\$74.80	\$64.81	\$95.70	\$34.90	\$40.50
2004/2005	\$152.21	\$551.24	\$114.39	\$77.17	\$77.37	\$97.80	\$43.16	\$45.50

Source: City of Scottsdale, Economic Vitality Department

Table 18
Sales Tax Collections Per Capita
 (General Fund collections adjusted to 1%)

Fiscal Year	Scottsdale	Phoenix	Mesa	Glendale	Chandler	Tempe	Gilbert	Peoria
1995/1996	\$320	\$151	\$156	\$98	\$143	\$182	n/a	n/a
1996/1997	\$337	\$159	\$164	\$130	\$142	\$189	n/a	n/a
1997/1998	\$330	\$175	\$170	\$139	\$141	\$206	n/a	n/a
1998/1999	\$339	\$140	\$121	\$144	\$148	\$298	n/a	n/a
1999/2000	\$380	\$100	\$121	\$156	\$167	\$220	\$96	\$190
2000/2001	\$400	\$184	\$172	\$101	\$173	\$346	\$134	\$220
2001/2002	\$380	\$184	\$165	\$144	\$188	\$330	\$151	\$249
2002/2003	\$370	\$195	\$154	\$156	\$199	\$323	\$129	\$174
2003/2004	\$392	\$176	\$162	\$178	\$185	\$338	\$141	\$179
2004/2005	\$407	\$218	\$175	\$187	\$218	\$319	\$162	\$240

Source: City of Scottsdale, Economic Vitality Department



OTHER INDICATORS

Two factors that have tremendous importance to the Scottsdale economy are tourism and education. Tourism generates millions of dollars in economic activity in the City each year. Quality education also has enormous economic impact, although more indirect than tourism. Education affects the quality of the workforce in a community, thereby attracting businesses—and investment—to the City.

Growth in Tourism

The tourism industry is a very important part of economic activity in the City of Scottsdale, generating over \$2.7 billion in total economic activity within the community in 2005.

Smith Travel Research reported Scottsdale's 2005 occupancy was 70.4 percent, and the average room rate was \$145.31. Occupancy has increased consistently over the last 10 years, the exception being a one-year decrease from 2000 to 2001.

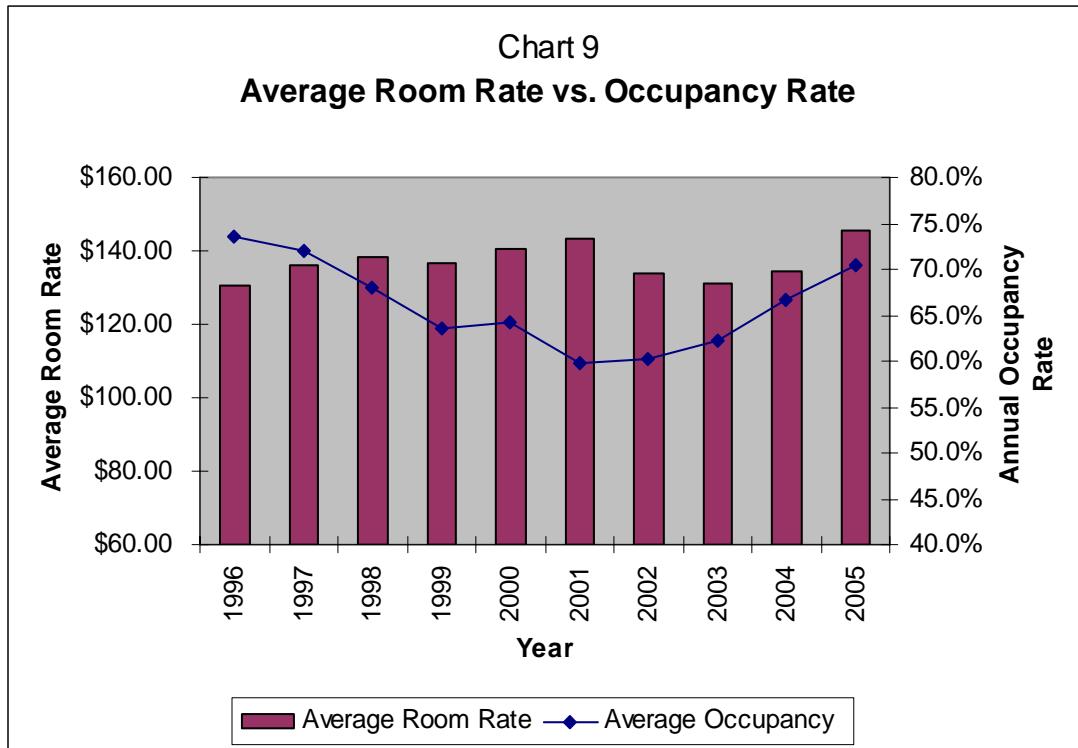
Bed tax revenues totaled \$7.7 million in 2005, a slight increase from 2004. Over the past ten years, total bed tax collections (3 percent of room revenues) have ranged from \$5.9 million in 1996 to \$7.7 million in 2005. Tourism is one of the most significant sources of revenue for the City of Scottsdale's operations.

Chart 9 (pg. 33) shows the average room rate versus the occupancy in the Scottsdale/Paradise Valley market area over a 10-year span.

Table 19 (pg. 34) presents the growth in tourism (number of hotel rooms, average room rate, average occupancy rate, and bed tax collections) in Scottsdale/Paradise Valley over the past decade.

Chart 10 (pg. 34) shows Scottsdale's bed tax collections from 1996 to 2005.

Tourism is one of the most significant sources of revenue for the City of Scottsdale's operations and budget.



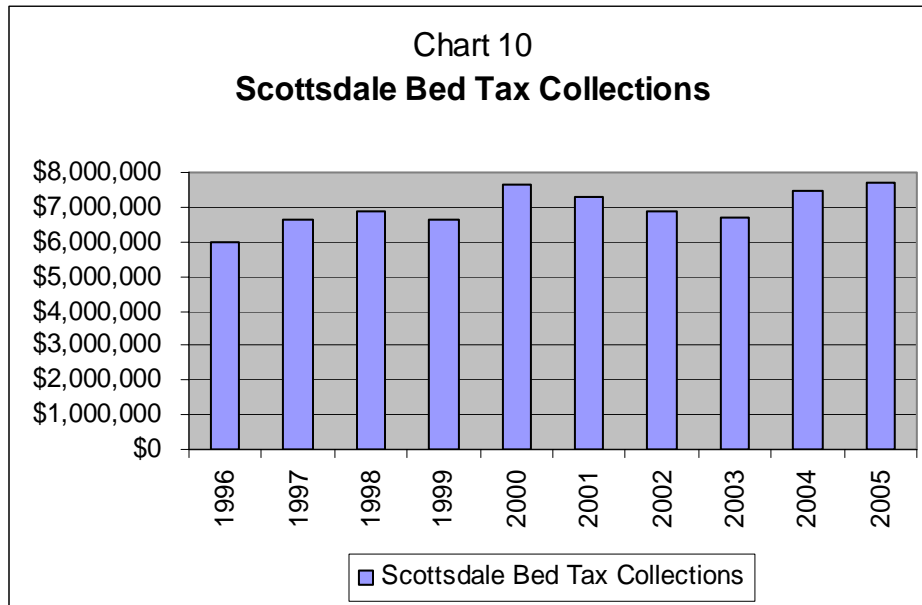
Source: City of Scottsdale, Economic Vitality Department, "Tourism Study Part I: Lodging Statistics" report

Table 19
Growth in Tourism
 Scottsdale/Paradise Valley Market Area

Year	Hotel Room Inventory	Average Room Rate	Average Occupancy	Scottsdale Bed Tax Collections*
1996	9,197	\$130.60	73.5%	\$5,986,818
1997	10,527	\$136.25	72.1%	\$6,623,443
1998	11,061	\$138.40	67.9%	\$6,878,352
1999	12,755	\$136.56	63.5%	\$6,626,425
2000	13,150	\$140.53	64.3%	\$7,619,693
2001	13,248	\$143.34	59.7%	\$7,276,496
2002	15,092	\$133.63	60.3%	\$6,846,846
2003	15,484	\$130.84	62.2%	\$6,713,203
2004	14,849	\$134.20	66.6%	\$7,439,590
2005	14,671	\$145.31	70.4%	\$7,708,510

Source: Smith Travel Research; City of Scottsdale, Economic Vitality Department

* = Bed tax collection figures represent Scottsdale hotels *only*



Educational Quality

The quality of education in a community is one of the most important factors in decision making by companies looking to expand or relocate because it directly impacts the quality of the labor force. Education is also a major factor in people's decisions about where to live, as everyone wants to provide the best education possible for their children.

The Scottsdale Unified School District has consistently had one of the highest rated school districts in the Phoenix metro area, with average standardized test scores comparable only to Cave Creek District (located, in part, in Scottsdale) and Kyrene Elementary District. Although the Scottsdale School District boundaries do not completely correspond with Scottsdale's city limits, approximately 92 percent of all school age children in Scottsdale are located within this district. The remaining children attend school in the Paradise Valley or Cave Creek School Districts, both of which have high overall test scores.

Table 20 (pg. 36) compares the Scottsdale Unified School District with other school districts in the metro Phoenix area.

Bond Rating

A high bond rating reflects the credit industry's faith in Scottsdale's ability to repay outstanding debt. Higher rated bonds indicate less risk to prospective bond buyers, which translates to lower interest costs for the city and its citizens. Scottsdale's general obligation bond rating was upgraded to AAA by Fitch IBCA in 1999, and by Standard & Poor's Rating Service and Moody's Investor Service in 2001. In February 2005, the Rating Agencies upheld the City's AAA rating.

Scottsdale's outstanding ratings reflect the quality of growth in the community and the City's ability to manage it. The City has substantial reserves set aside to combat an economic downturn, it has high property values and household incomes, and it has a strong financial management track record.

A high bond rating reflects the credit industry's faith in Scottsdale's ability to repay outstanding debt.

Table 20
Selected Metro Phoenix School Districts
 2005/2006 School Year

School District	Enrollment Total 2005/06*	2005/2006 Stanford 9 Achievement Test											
		Fourth Grade			Eighth Grade			Ninth Grade					
		Reading	Math	Language	Reading	Math	Language	Reading	Math	Language	Reading	Math	Language
Scottsdale Unified	27,436	69	74	71	71	71	69	71	68	69	71	68	69
Cave Creek Unified	5,750	71	69	71	64	68	64	73	73	69	73	73	69
Chandler Unified	31,000	63	69	63	63	64	59	63	61	61	63	61	61
Deer Valley Unified	33,500	63	71	66	63	68	61	64	64	63	64	64	63
Glendale Elementary/ Glendale Union HSH	13,300 15,000	35	38	37	42	40	42	57	57	57	57	57	57
Mesa Unified	75,500	57	66	57	63	69	59	66	69	64	66	69	64
Paradise Valley Unified	33,898	64	69	64	64	68	63	63	61	61	63	61	61
Phoenix Elementary/ Phoenix Union HSD	8,400 24,000	40	40	40	44	46	48	46	42	46	46	42	46
Kyrene Elementary/ Tempe Union HSD	18,600 14,000	69	77	69	74	76	69	66	66	64	66	66	64
Maricopa County	700,000	53	59	53	57	57	53	59	53	53	59	53	53
Arizona	1,100,000	51	59	71	55	57	69	55	53	69	55	53	69
U.S.	54,000,000	50	50	50	50	50	50	50	50	50	50	50	50

Source: Arizona Department of Education; Arizona Workforce Informer; US Census

*Enrollment numbers are estimates

ECONOMIC OUTLOOK

The Blue Chip Panel of the Bank one Economic Outlook Center is composed of economists from a variety of major public and private sector organizations that track economic trends and provide a monthly economic forecast for Arizona and the greater Phoenix area. The following section summarizes recent economic forecasts of the Blue Chip Panel.

Economic Forecast

Tables 21 and 22 (pg. 38) outline a series of economic indicators, as well as the most recent forecasts made by the Blue Chip Panel for anticipated changes for 2006 and 2007. The tables include data for the following three areas:

Employment

Wage and salary employment growth is expected to increase in the Phoenix metro area, continuing the recovery started early in 2003. A 2.5 percent increase in employment is expected in 2006, continuing the recovery from two years of negative growth (2001 – 2003). Increased employment is a result of the forecasted resurgence of the national economy.

Real Estate

The housing market set new records in 2005. Minor declines in permitting are expected in 2006 and 2007, but are still strong, by historic standards.

Metro Phoenix absorbed over 3.2 million square feet of office space in 2005, not including all of the office condos purchased by office users.

Real Estate (continued)

More than 1 million square feet of new office space will be added to the market in 2006, but tenants may still struggle to find space to meet their needs.

A sustained lack of industrial space will continue through 2006. The construction of new space will significantly increase industrial space, but will not offset the supply/demand imbalance. Overall vacancy rates are projected to fall slightly, despite the additions to the market.

Economy

The economy is expected slow down modestly in 2006 and 2007, due mainly to slowing on a national level and to an expected decline in single-family home construction.

Population and wage growth will continue to be reasonably strong; however, wages have not kept up with the rise in housing prices, making home ownership more difficult to attain.

Table 21
Economic Forecast
 State of Arizona and Metropolitan Phoenix

Growth Indicator	Economic Forecast for 2006 (vs. 2005)	Economic Forecast for 2007 (vs. 2006)
Population Growth		
Arizona:	3.0%	2.9%
Metro Phoenix:	3.2%	3.0%
Current Personal Income		
Arizona:	7.9%	7.4%
Metro Phoenix:	8.0%	7.4%
Retail Sales		
Arizona:	7.4%	6.8%
Metro Phoenix:	7.6%	7.0%
Wage & Salary Employment Growth		
Arizona:	4.0%	3.6%
Metro Phoenix:	4.2%	3.7%
Manufacturing Employment		
Arizona:	1.9%	1.5%
Metro Phoenix:	1.8%	1.5%
AZ Real Personal Income	5.3%	5.0%
AZ Single-family Units	(5.9%)	(3.8%)
US GDP Deflator	2.6%	2.5%

Source: ASU Blue Chip Economic Forecast Arizona, January 2006; ASU Blue Chip Economic Forecast Phoenix, March 2006

Table 22
Economic Outlook
 State of Arizona and Metropolitan Phoenix

Economic Indicator	Average Rate for 2006
Unemployment Rate	
Arizona:	4.3%
Metro Phoenix:	4.0%
Avg. U.S. 3 mo. T-Bill Rate:	4.3%
Avg. U.S. 10 yr. Treasury Notes:	5.1%

Source: Blue Chip Economic Forecast Arizona, Jan. 2006;
 Blue Chip Economic Forecast Phoenix, Mar. 2006